CHINA OCEAN INDUSTRY GROUP LIMITED

中 海 重 工 集 團 有 限 公 司

(Incorporated in Bermuda with limited liability)

(Stock code: 00651)

AUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

The board of directors (the "Board") of China Ocean Industry Group Limited (the "Company") announces the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2017 together with comparative figures as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	**2017** *HK$'000*	2016 *HK$'000*
Revenue	*4*	**349,238**	417,313
Cost of sales		**(671,626)**	(447,796)
Gross loss		**(322,388)**	(30,483)
Other income	*5*	**26,820**	15,429
Other gains and losses	*6*	**10,803**	(25,102)
Change in fair value of contingent consideration payable		**(5,081)**	(1,888)
Gain on settlement of contingent consideration payable		**39,704**	–
Change in fair value of investments held for trading		**(143)**	225
Change in fair value of convertible bonds payables		**(6,247)**	55,989
Change in fair value of investment properties		**1,730**	211
Gain on early redemption of convertible bonds payables		**5,003**	–
Gain on redemption of convertible bonds payables upon maturity		**13,872**	–
Selling and distribution expenses		**(7,397)**	(11,019)
Administrative expenses		**(208,525)**	(299,920)
Finance costs	*7*	**(173,491)**	(136,324)
Share of profit of associates		**1,692**	14,277
Share of profit of joint ventures		**–**	52,206

	Notes	2017 *HK$'000*	2016 *HK$'000*
Loss before tax		**(623,648)**	(366,399)
Income tax credit	*8*	**2,696**	7,173
Loss for the year	*9*	**(620,952)**	(359,226)
Other comprehensive (expenses) income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(71,336)**	77,471
Change in fair value of available-for-sale investment		**9,240**	–
Share of translation reserve of associates		**3,110**	(734)
Share of translation reserve of joint ventures		**16,398**	(2,677)
Other comprehensive (expenses) income for the year, net of income tax		**(42,588)**	74,060
Total comprehensive expenses for the year		**(663,540)**	(285,166)
Loss for the year attributable to:			
– Owners of the Company		**(611,790)**	(353,156)
– Non-controlling interests		**(9,162)**	(6,070)
		(620,952)	(359,226)
Total comprehensive expenses attributable to:			
– Owners of the Company		**(653,902)**	(278,338)
– Non-controlling interests		**(9,638)**	(6,828)
		(663,540)	(285,166)
Loss per share			
– Basic and diluted	*11*	**(HK$0.05)**	(HK$0.03)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**562,258**	195,022
Investment properties		**25,104**	15,745
Prepaid lease payments – non-current portion		**362,093**	283,724
Goodwill		**182,145**	123,574
Intangible assets		**183,410**	205,840
Interests in associates		**249,919**	192,706
Interests in joint ventures		**485,980**	527,461
Trade receivables – non-current portion	*12*	**1,391**	683
Deposits – non-current portion	*12*	**–**	66,711
Available-for-sale investment		**24,840**	–
Amount due from an associate – non-current portion		**6,110**	2,775
Restricted cash		**–**	94,000
Deferred tax asset		**130**	120
		2,083,380	1,708,361
CURRENT ASSETS			
Inventories		**134,988**	53,696
Trade and bills receivables	*12*	**212,226**	58,793
Other receivables	*12*	**709,003**	299,260
Prepayment	*12*	**271,458**	426,389
Tax recoverable		**5,725**	–
Amount due from an associate		**4,800**	4,440
Prepaid lease payments		**9,243**	6,873
Investments held for trading		**54**	2,177
Finance lease receivables	*13*	**9,353**	17,833
Pledged bank deposits		**248**	–
Bank balances and cash		**15,276**	101,785
		1,372,374	971,246

	Notes	2017 HK$'000	2016 HK$'000
CURRENT LIABILITIES			
Trade and other payables	*14*	**815,509**	411,227
Amounts due to customers for contract work		**336,169**	17,177
Amounts due to related parties		**811**	425
Amounts due to directors		**10,034**	1,521
Borrowings		**1,932,324**	1,049,146
Contingent consideration payable		**170,552**	317,628
Amounts due to associates		**15,159**	877
Provision for warranty		**4,171**	3,357
Provision for financial guarantee		**217,843**	–
Convertible bonds payables		**–**	256,032
Tax liabilities		**6,183**	4,064
		3,508,755	2,061,454
NET CURRENT LIABILITIES		**(2,136,381)**	(1,090,208)
TOTAL ASSETS LESS CURRENT LIABILITIES		**(53,001)**	618,153
CAPITAL AND RESERVES			
Share capital		**681,842**	600,138
Reserves		**(1,629,046)**	(1,244,602)
Equity attributable to owners of the Company		**(947,204)**	(644,464)
Non-controlling interests		**51,074**	39,712
TOTAL DEFICITS		**(896,130)**	(604,752)
NON-CURRENT LIABILITIES			
Other payables – non-current portion	*14*	**5,337**	4,937
Borrowings – non-current portion		**581,856**	1,039,050
Convertible bonds payables – non-current portion		**148,965**	92,847
Deferred tax liabilities		**106,971**	86,071
		843,129	1,222,905
		(53,001)	618,153

1. GENERAL

China Ocean Industry Group Limited (the "Company") is incorporated in Bermuda as an exempted company with limited liability under the Companies Act of Bermuda. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Exchange"). The addresses of the registered office and principal place of business of the Company are Unit 07, 21/F, West Tower, Shun Tak Centre,168-200 Connaught Road Central, Hong Kong.

Other than those subsidiaries established in Hong Kong whose functional currencies are Hong Kong dollars ("HK$"), the functional currency of the Company and its subsidiaries (hereinafter collectively known as the "Group") was Renminbi ("RMB"). The consolidated financial statements are presented in HK$ for the convenience of the shareholders as the Company's shares are listed in Hong Kong.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

In the preparation of the consolidated financial statements, the directors of the Company (the "Directors") have considered the liquidity of the Group in future.

For the year ended 31 December 2017, the Group incurred a loss for the year attributable to owners of the Company of approximately HK$611,790,000, and as at that date, the Group recorded net current liabilities and net liabilities of approximately HK$2,136,381,000 and HK$896,130,000, respectively.

To improve the Group's operation and financial position, the Directors have been implementing the following operating and financing measures:

(a) The Group actively reorganised the shipbuilding business, introduced leading shipbuilding companies to integrate the shipbuilding business, and revitalised the shipbuilding assets. According to the new cooperation framework agreement, Jiangxi Jiangzhou Union Shipbuilding Co., Ltd ("Jiangxi Shipbuilding") will be managed by leading shipbuilding companies to leverage their resource advantages and management experience to improve the production and organisation system, increase production efficiency, and reduce procurement and financial costs. At the same time, the spare resources such as wharfs and lands of Jiangxi Shipbuilding will be used for the production, storage, and transportation of limestone, bringing additional cash flows to the Group and introducing new partners to the Group to provide new funding source;

(b) The Group will continue to promote business diversification to create new cash generating units. And it will, with efforts devoted to the building an industrial chain of intelligent car parking and automotive electronics business, make full use of the resources of the Nantong manufacturing bases to expand the production scale for large-scale steel bridge. Besides, the Group will seek opportunities to cooperate with other shipbuilding companies in the production of ship equipment, so as to expand the Group's business base and improve its ability to acquire new bank facilities;

(c) The Group is in negotiation with its lending banks to allow revolving of loans upon their due dates when the same renewal conditions entitling the past renewal are met. It is also in the process of negotiating with several financial institutions, with the purpose of gaining new borrowings or seeking for new convertible security insurance.

(d) the Group is seeking financial assistance from local government;

(e) the Group is in negotiation with its suppliers and creditors to extend payment due date.

In addition, for the year ended 31 December 2017, the delays in shipbuilding production schedules have an adverse effect on the shipbuilding business. One out of the seven vessels, in which the shipbuilding production schedules were delayed during the year ended 31 December 2016, has been delivered to the customer during the year ended 31 December 2017. The Group is now in progress to negotiate with the customers (the "Two Customers") to resolve the problem of delays in production schedules for remaining six vessels (the "Six Vessels").

If the Group fails to reach the agreement with the Two Customers relating to the Six Vessels, the Two Customers have the rights to issue rescission notice and the Group is required to return all of the payments received so far from the Two Customers, with an aggregate amount of approximately HK$824,486,000 (equivalent to approximately USD105,568,000 and to pay interests on amount calculated in accordance with the relevant terms stated in the shipbuilding contracts (the "Interests"). The repayment plan and the amount of Interests to be paid should be negotiated by the Group and the Two Customers. On the other hand, the Group has approached to two to three potential customers to deal with the Six Vessels. As the management of the Company believes that the Six Vessels could be disposed of at the current market price, therefore the original contract prices of the Six Vessels has been adjusted to the current market price for prudence. Also, the Group will consider the result of the negotiation with the banks which finance the construction of the Six Vessels before finalising the action plan on the Six Vessels.

Also, the Directors are of the opinion that, taking into account the measures as above, the Group will have sufficient working capital to meet its financial obligations as they fall due in the next twelve months from this consolidated financial statements were authorised to issue. Accordingly, the Directors believe that the consolidated financial statements should be prepared on a going concern basis. However, the eventual outcome is uncertain, should the going concern assumption be inappropriate, and/or the Group fails to reach agreement with the abovementioned Two Customers and the Group is required to repay all the payments paid to the Group as well as the Interests, adjustments may have to be made to reverse related revenue and cost of sales, to write-down on work in progress vessels, to provide for further foreseeable loss that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year.

Amendments to Hong Kong Accounting Standard ("HKAS") 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRSs 12	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 7 "Disclosure Initiative"

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows;(ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in the consolidated financial statements. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in the consolidated financial statements, the application of these amendments has had no impact on the Group's consolidated financial statements.

New and revised to HKFRSs in issue but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and related Amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC)-Interpretation ("Int") 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 *Financial Instruments* with HKFRS 4 *Insurance Contracts*[1]
Amendments to HKFRS 9	Prepayment Feature with negative Compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle[1]
Amendments to HKFRSs	Annual improvement on HKFRSs 2015-2017 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2021

Except for the new and amendments to HKFRSs and interpretations mentioned in the consolidated financial statements, the directors of the Company (the "Directors") anticipate that the application of all other new and amendments to HKFRSs and interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

4. REVENUE AND SEGMENT INFORMATION

Information reported to the board of Directors, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

During the year ended 31 December 2017, "Steel structure engineering and installation" became a new operating activity of the Group and it is separately assessed by the CODM. Therefore, it is reported as a new reportable and operating segment.

Specifically, the Group's reportable and operating segments under HKFRS 8 *Operating Segments* areas follows:

a) Shipbuilding business – provision of shipbuilding services under shipbuilding construction contracts and operated in the People's Republic of China (the "PRC").

b) Trading business – provision of trading of electronic appliance and operated in Hong Kong.

c) Finance leasing business – provision of direct finance leasing, sale and leaseback,advisory services and provision of factoring services in the PRC.

d) Intelligent car parking and automotive device business – manufacturing and sales of car parking equipment, investment, operation and management of car parks and electronic automotive devices in the PRC.

e) Steel structure engineering and installation – manufacturing and selling of steel structures and fittings for ship, marine equipment, mining equipment, ro-ro equipment, ship, bridge and building steel structure in the PRC.

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable and operating segment.

For the year ended 31 December 2017

	Shipbuilding business *HK$'000*	Trading business *HK$'000*	Finance leasing business *HK$'000*	Intelligent car parking and automotive device business *HK$'000*	Steel structure engineering and installation *HK$'000*	Elimination *HK$'000*	Total *HK$'000*
Segment revenue							
– External sales	**(78,989)**	**26,166**	**615**	**120,427**	**281,019**	**–**	**349,238**
– Inter-segment sales	**–**	**–**	**5,857**	**14,077**	**–**	**(19,934)**	**–**
Total segment revenue	**(78,989)**	**26,166**	**6,472**	**134,504**	**281,019**	**(19,934)**	**349,238**
Segment result	**(538,213)**	**130**	**(29,939)**	**(79,472)**	**3,779**		**(643,715)**
Unallocated other gains and losses							**14,303**
Unallocated other income							**877**
Gain on settlement of contingent consideration payable							**39,704**
Change in fair value of convertible bonds payables							**(6,247)**
Change in fair value of investments held for trading							**(143)**
Change in fair value of investment properties							**1,730**
Gain on early redemption of convertible bonds payables							**5,003**
Gain on redemption of convertible bonds payables upon maturity							**13,872**
Share of profit of associates							**1,692**
Unallocated corporate expenses							**(21,309)**
Unallocated finance costs							**(29,415)**
Loss before tax							**(623,648)**

For the year ended 31 December 2016

	Shipbuilding business *HK$'000*	Trading business *HK$'000*	Finance leasing business *HK$'000*	Intelligent car parking and automotive device business *HK$'000*	Elimination *HK$'000*	Total *HK$'000*
Segment revenue						
– External sales	154,220	51,124	1,420	210,549	–	417,313
– Inter-segment sales	–	14,885	7,850	57,013	(79,748)	–
Total segment revenue	154,220	66,009	9,270	267,562	(79,748)	417,313
Segment result	(321,284)	(15,359)	(14,548)	(49,960)		(401,151)
Unallocated other income						1,099
Unallocated other gains and losses						(25,066)
Change in fair value of contingent consideration payable						(1,888)
Change in fair value of investments held for trading						225
Change in fair value of convertible bonds payables						55,989
Unallocated finance costs						(37,156)
Share of profit of associates						14,277
Share of profit of joint ventures						52,206
Unallocated corporate expenses						(24,934)
Loss before tax						(366,399)

5. OTHER INCOME

	2017	2016
	HK$'000	*HK$'000*
Consultancy income	**8,853**	–
Government grants	**1,996**	9,313
Rental income	**9,428**	–
Sales of scrap materials	**–**	1,632
Interests on bank deposits	**877**	1,099
Gain on disposal of property, plant and equipment	**–**	463
Others	**5,666**	2,922
	26,820	15,429

6. OTHER GAINS AND LOSSES

	2017	2016
	HK$'000	*HK$'000*
Loss on disposal of property, plant and equipment	**(284)**	–
Loss on written-off of property, plant and equipment	**–**	(36)
Loss on disposal of an associate	**(1,215)**	–
Loss on disposal of investment property	**(224)**	–
Loss on disposal of investments held for trading	**(149)**	–
Sales of scrap materials	**(3,069)**	–
Foreign exchange gain (loss)	**15,854**	(25,148)
Reversal of impairment loss recognised in respect of trade receivable	**77**	–
Others	**(187)**	82
	10,803	(25,102)

7. FINANCE COSTS

	2017	2016
	HK$'000	*HK$'000*
Interests on borrowings wholly repayable within five years:		
Convertible bonds payables	**24,628**	37,081
Overdue interests on convertible bonds payables	**4,782**	–
Interests on bank borrowings	**57,241**	35,598
Interests on other borrowings	**78,109**	52,206
Guarantee fee and fund management fee incurred in connection with borrowings	**8,726**	11,364
Others	**5**	75
	173,491	136,324

8. INCOME TAX CREDIT

	2017	2016
	HK$'000	*HK$'000*
Current tax		
– Hong Kong Profits Tax	**–**	–
– PRC tax	**20,573**	10,207
Deferred tax	**(23,269)**	(17,380)
	(2,696)	(7,173)

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. No provision for Hong Kong Profits Tax has been made since the Group has no assessable profits arising in Hong Kong for both years.

Under the law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

Certain subsidiaries of the Group has obtained the qualification of High and New Technology Enterprise from the relevant PRC government authorities and subject to a preferential tax rate. Certain subsidiaries of the Group in the PRC enjoy the tax holiday and the profits are fully exempted from EIT for three years starting from its first year of profitable operations, followed by 50% reduction in EIT in next three years.

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profit derived after 1 January 2008 are generally subject to a 10% PRC Withholding Tax. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%.

9. LOSS FOR THE YEAR

	2017	2016
	HK$'000	*HK$'000*
Loss for the year has been arrived at after charging:		
Directors' and chief executive's emoluments	**5,842**	5,799
Other staff costs:		
Salaries and other benefits	**46,367**	42,041
Contributions to retirement benefits scheme	**8,446**	7,538
Total staff costs	**60,655**	55,378
Auditor's remuneration		
– Audit service	**2,297**	3,035
– Non-audit service	**878**	539
Cost of inventories recognised as an expense	**297,968**	174,847
Depreciation of property, plant and equipment	**60,333**	52,933
Amortisation of prepaid lease payments	**8,654**	7,332
Amortisation of intangible assets	**41,371**	39,840
Minimum lease payments paid under operating leases in respect of rented premises	**7,767**	7,847
Shipbuilding contract costs recognised as cost of sales	**350,683**	268,260
Foreseeable losses (included penalties due to delay in shipbuilding production schedules) recognised in respect of additional estimated costs (included in shipbuilding contract cost and recognised as cost of sales)	**52,156**	52,061
Impairment loss recognised in respect of trade receivables	**–**	844
Impairment loss recognised in respect of property, plant and equipment	**–**	66,828
Impairment loss recognised in respect of prepaid lease payments	**–**	18,766
Impairment loss recognised in respect of intangible assets	**16,925**	–
Impairment loss recognised in respect of goodwill	**40,771**	64,483
Impairment loss recognised in respect of other receivables	**–**	9,177

10. DIVIDEND

No dividends were paid or proposed for ordinary shareholders of the Company during 2017, nor has any dividend been proposed since the end of the reporting period (2016: Nil).

11. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to owners of the Company is based on the following data:

	2017	2016
	HK$'000	*HK$'000*
Loss		
Loss for the year attributable to owners of the Company for the purposes of basic and diluted loss per share	**(611,790)**	(353,156)

	2017	2016
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**13,119,433**	11,996,663

The computation of diluted loss per share for the years ended 31 December 2017 and 2016 does not assume i) the exercise of the Company's share options; and ii) the conversion of the Company's outstanding convertible bonds since their assumed exercise or conversion would result in a decrease in loss per share for the year which is regarded as anti-dilutive.

12. TRADE AND BILLS RECEIVABLES/DEPOSITS/OTHER RECEIVABLES/PREPAYMENT

	2017	2016
	HK$'000	*HK$'000*
Trade receivables – non-current portion	**1,391**	683
Trade receivables – current portion	**215,147**	59,594
Less: Allowance for doubtful debts	**(4,135)**	(801)
Trade receivables– current portion, net of allowance for doubtful debts	**211,012**	58,793
Bills receivables	**1,214**	–
Trade and bills receivables – current portion	**212,226**	58,793
Total trade and bills receivables, net of allowance for doubtful debts *(Note)*	**213,617**	59,476
Deposits – non-current portion	**–**	66,711
Other receivables	**280,047**	88,427
Value-added tax recoverable	**139,633**	149,453
Amounts due from the former shareholders of a subsidiary	**264,102**	–
Deposit paid for the construction	**22,581**	–
Deposits placed to agents and a stakeholder	**26,330**	77,002
	732,693	314,882
Less: Allowance for doubtful debts	**(23,690)**	(15,622)
Other receivables, net of allowance for doubtful debts	**709,003**	299,260
Prepayment	**271,458**	426,389

Note:

At 31 December 2017 and 31 December 2016, the Group's trade receivables include (1) trade receivables from factoring services with one year credit period; (2) trade receivables from intelligent car parking and automotive device business with average 90 days credit period; and (3) retention receivables for intelligent car parking with range from one to two years under the respective terms of contract; and (4) trade receivables from steel structure engineering and installation with 30 days credit period.

At 31 December 2017, trade receivables are non-interest bearing, except for trade receivables from factoring services with aggregated amount of HK$4,920,000 (2016: HK$2,331,000) which bear interest rate of 12% (2016: 12%) per annum.

The following is an aged analysis of trade and bills receivables, net of allowance for doubtful debts, presented based on contract date/delivery date at the end of the reporting periods:

	2017	2016
	HK$'000	*HK$'000*
0-90 days	**156,508**	56,643
More than 90 days but not exceeding one year	**42,227**	1,320
In more than one year	**14,882**	1,513
	213,617	59,476

The Directors considered impairment loss on trade and bills receivables that were past due as at 31 December 2017 and 31 December 2016. The Group did not hold any collateral over these balances.

Movement in the allowance for doubtful debts for trade and bills receivables:

	2017	2016
	HK$'000	*HK$'000*
At 1 January	**801**	–
Acquisition on subsidiaries	**3,207**	–
Reversal of impairment loss	**(77)**	–
Impairment loss recognised	**–**	844
Exchange adjustments	**204**	(43)
At 31 December	**4,135**	801

13. FINANCE LEASE RECEIVABLES

Amounts receivable under finance leases

	2017	2016
	HK$'000	*HK$'000*
Finance lease receivables not later than one year	**10,570**	20,348
Less: Unearned finance income	**(925)**	(2,245)
Present value of minimum lease payment receivables	**9,645**	18,103
Less: Accumulated impairment loss	**(292)**	(270)
	9,353	17,833

	2017	2016
	HK$'000	*HK$'000*
Accumulated impairment loss		
At the beginning of year	**270**	287
Exchange adjustments	**22**	(17)
At the end of year	**292**	270

14. TRADE AND OTHER PAYABLES

	2017 *HK$'000*	2016 *HK$'000*
Consideration payable for acquisition of property, plant and equipment – non-current portion	**5,337**	4,937
Trade payables	**165,939**	70,860
Consideration payable for acquisition of prepaid lease payments	**45,260**	41,865
Payable to guarantors	**746**	1,652
Contribution payables to labour union and education funds	**14,278**	12,668
Accrual of contractor fees	**16,204**	7,135
Accrual of government funds	**33,466**	28,860
Other payables and accruals	**539,616**	248,187
	815,509	411,227

The following is an aged analysis of trade payables presented based on invoice date or issue date, respectively, at the end of the reporting periods:

	2017 *HK$'000*	2016 *HK$'000*
0 – 30 days	**22,843**	9,315
31 – 60 days	**6,173**	7,439
61 – 90 days	**17,304**	3,730
Over 90 days	**119,619**	50,376
	165,939	70,860

Trade payables are unsecured, non-interest bearing and repayable on demand.

EXTRACT OF THE INDEPENDENT AUDITOR'S REPORT

The following is an extract of the independent auditor's report on the Group's consolidated financial statements for the year ended 31 December 2017 which has included a disclaimer of opinion:

DISCLAIMER OF OPINION

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the disclosure requirement of the Hong Kong Companies Ordinance.

BASIS FOR DISCLAIMER OF OPINION

(a) Limitation of scope on prior year's scope limitation affecting opening balances, comparative figures and related disclosures

As explained in our report dated 30 March 2017 on the Group's consolidated financial statements for the year ended 31 December 2016, we were not provided with sufficient evidence to enable us to assess as to the revenue and cost of sales of the shipbuilding business for the year ended 31 December 2016 and the balance of the amounts due to customers for contract work as at 31 December 2016 were fairly stated. We qualified our opinion on the Group's consolidated financial statements for the year ended 31 December 2016 in respect of this scope limitation accordingly.

Any adjustments found to be necessary to the opening balances as at 1 January 2017 may affect the results and related disclosures in the notes to the consolidated financial statements of the Group for the year ended 31 December 2017. The comparative figures for the year ended 31 December 2016 shown in these consolidated financial statement may not comparable with the figures for the current year.

(b) Limitation of scope on revenue, cost of sales and amounts due to customers for contract work of shipbuilding business

Included in the Group's revenue and cost of sales for the year ended 31 December 2017 was a debit balance of revenue (net) and cost of sales of approximately HK$78,989,000 and HK$350,683,000 from shipbuilding business respectively. Revenue from shipbuilding business had been recognised by the Group based on the percentage of completion. As set out in Notes 2 and 31 to the consolidated financial statements, due to delays in shipbuilding production schedules and the decrease in market prices of the vessels, the Group reduce the contract price for four vessels to an aggregate amount of approximately USD24,008,000, accordingly, a reversal of revenue of approximately HK$162,830,000 and foreseeable loss of approximately HK$46,751,000 were recognised during the year ended 31 December 2017.

Due to delays in shipbuilding production schedules, two customers relating to six vessels (collectively referred to as the "Two Customers"), in accordance with the terms and conditions stated in the relevant shipbuilding contracts, have the rights to issue rescission notices to the Group if the Two Customers cannot receive the vessels on or before the agreed vessels delivery dates in accordance with the terms and conditions stated in the relevant shipbuilding contracts (i.e. June 2016 to March 2017). If notice were issued by the Two Customers, the Group is required to return all of the payments received so far from the Two Customers, of an aggregate amount of approximately HK$824,486,000 (equivalent to approximately USD105,568,000) and to pay interests on such amount calculated in accordance with the relevant terms stated in the shipbuilding contracts (the "Interests"). The management of the Group have been in negotiation with the Two Customers since June 2016. Up to the date when the consolidated financial statements are authorised for issue, the management of the Group have not yet reached any formal agreements with the Two Customers. Taking into account the specific facts and circumstances, it was uncertain the Two Customers will exercise their rights to issue the rescission notice to the Group and request for return of payments together with Interests from the Group. We were unable to obtain sufficient appropriate audit evidence we consider as necessary in order to assess whether the related revenue and cost of sales should be reversed.

Similarly, if the abovementioned revenue and the related cost of sales were reversed, we were unable to obtain sufficient appropriate audit evidence we consider as necessary as to determined whether the value of the work in progress vessels are fairly stated. Further, the Group had not recognised any additional penalty to be incurred due to the late delivery nor recognised any Interests as the management of the Group believes that these amounts cannot be reliably measured taking into account the fact that the management of the Group is still in negotiation with the Two Customers.

There were no other alternative audit procedures that we could carry out to determine whether the related revenue and cost of sales should be reversed during the year ended 31 December 2017 and the balance of the amounts due to customers for contract work of approximately HK$336,169,000 as at 31 December 2017 were fairly stated, which could have consequential effect on the net current liabilities and net liabilities of the Group as at 31 December 2017 and the loss for the year then ended.

Any adjustment to revenue, cost of sales, amounts due to customers for contract work and additional provision for Interests and foreseeable loss found to be necessary would affect the Group's net current liabilities and net liabilities as at 31 December 2017 and the Group's loss for the year then ended and related disclosures to the consolidated financial statements.

(c) Material fundamental uncertainties relating to going concern basis

As set out in the consolidated statement of profit or loss and other comprehensive income, the Group incurred a loss for the year attributable to owners of the Company of approximately HK$611,790,000 for the year ended 31 December 2017 and, as of that date, the Group's current liabilities exceeded its current assets by approximately HK$2,136,381,000 and the Group had net liabilities of approximately HK$896,130,000. Also, as mentioned in point (b) above, it was highly uncertain whether the Two Customers will exercise their rights to require the Company to repay all the payments made to the Group and the Interests. These conditions indicate the existence of material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business.

As explained in Note 2 to the consolidated financial statements, the consolidated financial statements have been prepared by the directors of the Company (the "Directors") on a going concern basis, the validity of which is dependent on the Group's ability to obtain sufficient future funding. Due to the uncertainty of the Group's ability to maintain adequate future cash flows, we were unable to ascertain whether the assumptions made by the Directors in preparing the consolidated financial statements on a going concern basis are proper and appropriate.

Should the going concern assumption be inappropriate, adjustments would be necessary to reclassify all non-current assets and liabilities as current assets and liabilities respectively, write-down the value of assets to their recoverable amounts and to provide for further liabilities which may arise. The consolidated financial statements have not incorporated any of these adjustments. However, the uncertainty surrounding the Group's future cash flows raises significant doubt about the Group's ability to continue as a going concern. We consider that appropriate disclosures have been made in the consolidated financial statements concerning this situation, but we are unable to obtain adequate evidence concerning the Group's ability to meet any financial obligations as and when they fall due and we consider that this material uncertainty relating to going concern basis and their cumulative effect on the consolidated financial statements is so extreme that we have disclaimed our opinion.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

China Ocean Industry Group Limited is engaged in the intelligent car-parking and automotive electronics, shipbuilding, manufacture and sales of steel structure, trading and finance lease business.

2017 was a crucial year to the business transformation of the Group. The business expansion from shipbuilding business to intelligent car-parking, automotive electronics, and steel structure has brought forth new opportunities and challenges to the resource integration and business expansion of the Group. Confronted with sluggish shipbuilding business, the Group continued to adjust the shipbuilding business and revitalize the shipbuilding assets. With the support and help of local government, the Group is about to achieve realized breakthrough in the cooperation with advantageous enterprises in shipbuilding business, making initial achievements in the revitalization of shipbuilding assets. With the great pressure of shipbuilding business, the Group still needs to make greater endeavor to solve problems left. In terms of intelligent car-parking business, the Group cooperated with advantageous enterprises in the industry to build the industrial chain from equipment manufacture to car park investment and operation, realizing certain achievements. With regard to automotive electronics, it strengthens development of new products in response to intensified market competition. The Group will transfer the industrial focus to the coastal developed areas through the steel structure business newly acquired in 2017. Under complicated market environment, certain progress has been made in the initial acquisition, forming powerful support for the business transformation of the Group.

The Group focuses on the substantial industry and devotes itself to development of heavy equipment industry. Most of its subordinate enterprises are fund-intensive and technology-intensive enterprises. Due to the fluctuation of share price, the Group didn't complete the contracted financing plans in the capital market in 2017, causing material adverse impacts on the Group's business. The Group has formulated reasonable plans, introduced strategic partners and expanded sources of the fund on the basis of integration and revitalization of shipbuilding assets.

During the year ended 31 December 2017, the Group recorded external revenue of HK$349 million (2016: HK$417 million), representing a decrease as compared to last year, which was mainly attributed to reduction of contract price of the vessels under construction. Shipbuilding business recorded a debit balance of revenue (net) of approximately HK$79 million (2016: credit balance of HK$154 million). The negative revenue was attributable to the reduction of contract price of HK$163 million (2016:Nil) arising from the delay delivery of vessels. The intelligent car-parking and automotive electronics business recorded external revenue of HK$120 million (2016: HK$211 million), which was mainly due to failure to realize the expected objective of adjustment of sales strategies of car-parking equipment affected by limitations of local policies on car park construction and capital. The steel structure business recorded revenue of HK$281 million (2016: Nil). During the period under review, the Group recorded gross loss of HK$322 million (2016: HK$30 million), substantially increased as compared to 2016, mainly due to the operating loss of shipbuilding business and the reduction of contract price for the delay delivery of vessels.

The Group's finance cost increased from HK$136 million to HK$173 million, mainly due to newly increased capital in car park business and capital brought by newly acquired steel structure business.

In conclusion, the Group recorded a loss attributable to shareholders of HK$612 million (2016: loss of HK$353 million) during the year ended 31 December 2017, increased substantially as compared to last year. In addition to the increase of the loss of shipbuilding business and the impairment provision for delayed delivery of vessels, the rise in finance expenses and other factors also caused adverse impacts on the performance.

SHIPBUILDING BUSINESS

The shipbuilding business recorded a debit balance of revenue of HK$79 million (2016: credit balance of HK$154 million) during the period under review, mainly due to the reduction of contract price totaling HK$163 million (2016: Nil).

Due to continued sluggish international shipping market, the shipbuilding business constituted great pressure on the Group's operation. The depressing vessel prices, increasing labor cost, rising financial and financing cost have increased the loss of shipbuilding and consumed a great many cash resources of the Group.

The delay delivery of vessels caused by the change of market conditions has become the top issue need to be addressed by the Group. In respect of the 7 vessels of delay delivery in 2016, the Group has reached an agreement and delivered one vessel to ship-owner, while the remaining six vessels are still under delay delivery. The Group established a negotiating team to negotiate with ship owner and its financing institutions on the delivery conditions or the conditions of terminating the delivery. Meanwhile, the Group has been exploring other solutions to strive for benefits of the Group. According to the latest negotiation progress, the Group has almost reached agreement with the original ship owner on the treatment of the delay delivery of four vessels, and has figured out new solutions. Initial resolutions for the delay delivery of other two vessels also have been reached.

To fundamentally solve the problem in heavy losses and limited development of the shipbuilding business, the Group had cooperated with major state-owned enterprises to establish major shipbuilding plant in Nantong. With the advantageous geographical location of Nantong and rich resources of the state-owned enterprise, the Group integrated its shipbuilding business. Meanwhile, it established a dedicated team to identify domestic advantageous shipbuilding enterprises, aiming to integrate the shipbuilding business of the key shipbuilding base of the Group, Jiangxi Shipbuilding, consolidate and deploy shipbuilding assets by class including land, factories and wharfs, adjust production layout, by transferring surplus fix asset to assist the manufacturing of parking equipment and special equipment, and upgrading the Yangtze River Wharf to a public wharf for logistics purpose, and to expand sources of cash of the Group.

INTELLIGENT CAR-PARKING AND AUTOMOTIVE ELECTRONICS BUSINESS

For the year ended 31 December 2017, the intelligent car-parking and automotive electronics business recorded a total revenue of HK$135 million (2016: HK$268 million) with a decrease of 50% as compared to last year. As the focus of the car parking business has been shifted to car parking investment and operation, the Group adjusted the sales strategy for car parking equipment which stimulates the equipment sales through reform of car parking in residential communities and investment, realizing certain achievements. However, the commencement and sales of several projects were affected due to the slow progress caused by sluggish local policies on car parking construction and insufficient funds. In the second half of 2017, the Group re-adjusted the sales strategy of the car-parking equipment by devoting more effort to developing the car-parking equipment market while continuing to focus on the transformation of the parking lot of residential community, which achieved a turnaround in the decline trend in sales of car-parking equipment.

Confronted with intensified market competition, the sales of original products has decreased. The Group reinforced the efforts on new product development, launched new internet-related products, and realized initial achievements in the product upgrading.

MANUFACTURE AND SALES OF STEEL STRUCTURE BUSINESS

The Group completed the acquisition of steel structure business at the beginning of April 2017, and recorded revenue of HK$281 million from April to December (2016: Nil). The segment mainly provided relevant steel structure products for large-scale bridge construction and shipbuilding. Thanks to the rapid development of high-speed rail projects in China, the Group's steel structure bridge business grew fast with a large quantity of orders and quality customers. It has successfully provided production and processing service for several large-scale bridge projects.

Due to the difficulties facing the shipbuilding industry, the business of ship equipment and ocean engineering related equipment experienced a contraction in sales volume, which fell short of expectation and adversely affected the performance. The Group is currently seeking cooperation with other shipping companies in Jiangsu Province, with a view to re-expand the manufacturing business of ship and ocean engineering related equipment.

TRADING BUSINESS

During the year under review, the trading business recorded external revenue of HK$26 million (2016: HK$51 million). It conducted trading business in Hong Kong to provide new business support and trade financing channels for the Group, which was the Group's strategy. New attempt will also be considered in the future.

FINANCE LEASE BUSINESS

During the period under review, the Group's financial leasing business mainly funded the Group's shipbuilding business and intelligent car parking business. The financial leasing business with external parties is still in development stage. The finance lease company established in Zhoushan with joint contribution from the Group and the government investment platform company had a stable operation.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2017, the Group had bank balances and cash (including pledged bank deposits) of approximately HK$15.52 million (31 December 2016: HK$101.79 million) of which HK$0.25 million (31 December 2016: Nil) was pledged; short-term borrowings of HK$1,932.32 million (31 December 2016: HK$1,049.15 million); long-term borrowings of HK$581.86 million (31 December 2016: HK$1,039.05 million); convertible bonds payable amounted to approximately HK$148.97 million (31 December 2016: HK$348.88 million) represented the fair value of principal amount of HK$189 million (31 December 2016: HK$346 million). The gearing ratio defined as non-current liabilities and short term borrowing divided by total shareholders' equity was 2.93 at 31 December 2017 (31 December 2016: 3.53).

FUND RAISING FROM ISSUE OF SHARES/CONVERTIBLE BONDS

On 6 December 2016, the Company and Macquarie Bank Limited ("Macquarie") entered into a subscription agreement pursuant to which Macquarie has conditionally agreed to subscribe for, and the Company has conditionally agreed to issue, convertible notes in aggregate principal amount of up to HK$400 million, which is to be issued in 4 tranches with each trance in principal amount of HK$100 million and with interest rate at 2% per annum ("2018 Convertible Notes"). On 15 December 2016, the Company issued the first tranche in principle amount of HK$100 million. On the same day, Macquarie exercised the conversion rights attached to the 2016 Convertible Notes and converted principal amount of HK$1 million into 4,775,000 conversion shares. During the year of 2017, Macquarie continued to convert163,580,000 conversion shares in aggregate principal amount of HK$32 million at average conversion price of HK$0.1956, representing an average discount of 0.30% to the closing market price as quoted on the Stock Exchange immediately preceding day the shares were issued. The net proceeds of approximately HK$30 million from issue of conversion shares were used by the Company for general working capital purpose. Under Macquarie's early redemption notice on 26 July 2017, the outstanding 2018 Convertible Notes in principle amount of HK$67 million was redeemed by the Company on 23 August 2017. As at the date of this announcement, the first tranche of 2018 Convertible Notes was all redeemed and under the subscription agreement, the remaining 3 tranches in aggregate principle amount of HK$300 million is yet to be issued by the Company.

On 10 August 2017, the Company and Pacific Ocean Marine Limited ("Pacific Ocean") entered into a subscription agreement(amended and supplemented on 10 October 2017) pursuant to which Pacific Ocean has conditionally agreed to subscribe for, and the Company has conditionally agreed to issue, the convertible bonds in the aggregate principal amount of HK$189 million. The convertible bonds have an initial conversion price of HK$0.07 per share, representing a discount of approximately 2.78% to the closing price of HK$0.072 per share as quoted on the Stock Exchange on 10 August 2017, and bear interest of 10% per annum. Upon full conversion of the convertible notes, a total of 2,700,000,000 shares would be issued, representing approximately 16.53% of the total enlarged number of issued shares by the allotment and issue of conversion shares. On 10 November 2017, the subscription agreement was completed and convertible bonds in the principal amount of HK$189 million were issued to Pacific Ocean. As the date of this announcement, no convertible shares were issued under the subscription agreement and among the net proceeds of HK$189 million, HK$170 million was used for repayment of debts and HK$19 million was used for general working capital.

The shareholders' dilution impact in the event of the allotment and issue of Conversion Shares upon full conversion of the Convertible Bonds at the initial Conversion Price of HK$0.070 per Share are as follows:

Shareholder	**At the 31 December 2017**		**Immediately after full conversion of the Convertible Bonds** *(Note 2)*	
	No. of Shares	*Approximate percentage*	*No. of Shares*	*Approximate percentage*
Mr. Li Ming	1,137,577,954	8.34%	1,137,577,954	6.96%
Lead Dragon Limited *(Note 1)*	505,845,000	3.71%	505,845,000	3.10%
Mr. Zhang Shi Hong	227,600,000	1.67%	227,600,000	1.39%
The Subscriber	0	0%	2,700,000,000	16.53%
Public Shareholders	11,765,815,886	86.28%	11,765,815,886	72.02%
Total:	13,636,838,840	100.00%	16,336,838,840	100.00%

Notes:

1. Lead Dragon Limited is wholly-owned by Mr. Li Ming, the chairman and an executive Director.

2. The shareholding structure set out in this column is shown for illustration purposes only. The Conversion Rights shall only be exercisable so long as not less than 25% of the then total number of issued Shares as enlarged by the issue of the Conversion Shares are being held in public hands and will not result in the relevant Bondholder, its associates and parties acting in concert with it will, in aggregate, control or be interested in 30% or more of the voting rights of the Company unless: (i) a whitewash waiver is obtained in accordance with the requirements of the Takeovers Code; or (ii) a general offer is made in accordance with the requirements of the Takeovers Code.

CHARGES ON GROUP ASSETS

As at 31 December 2017, HK$0.25 million (31 December 2016: Nil) of deposits, HK$425.54 million (31 December 2016: HK$148.84 million) of property, plant and equipment, HK$221.80 million (31 December 2016: HK$129.87 million) of prepaid lease payments and HK$8.90 million (31 December 2016: Nil) of inventories were pledged to banks or other parties to secure borrowings, bills payable and facilities granted to the Group. The pledge on the bank deposits will be released upon the settlement of relevant bills payables and borrowings.

As at 31 December 2017, the Company pledged the entire equity interest of a wholly-owned subsidiary of the Company, Jiangxi Jiangzhou Union Shipbuilding Ltd., to secure an bank borrowing amounting to RMB107.41 million (31 December 2016: RMB108.02 million).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

The income and expenditure of the Group were denominated in Renminbi, Hong Kong Dollars and United States Dollars. As at 31 December 2017, the Group did not hedge its exposure to foreign exchange risk profile as the Group could not find a suitable instrument to manage this exposure. The Board will continue to consider the appropriate hedging measures.

LITIGATIONS

As at 31 December 2017, details of the pending litigations of the Group are set out as follows:

(i) In August 2017, an insurance company field its writ to Wuhan Marine Court against Jiangxi Shipbuilding for the failure to make payment of shipbuilding insurance premium. At the end of the reporting period, the litigation was judged and the outstanding payable of the principal payment and the relevant interests accrued of approximately RMB1,241,000 in aggregate, were recognised under "Trade and other payables" in the consolidated statement of financial position.

(ii) In June 2016, a contractor filed its writ to Jiangxi Province Nanchang County People's Court against Jiangxi Shipbuilding for the failure to make payment of contracting services. At the end of the reporting period, the litigation was judged and the outstanding payable of the principal payment and the relevant interests accrued of approximately RMB313,000 in aggregate, were recognised under "Trade and other payables" in the consolidated statement of financial position.

(iii) In August 2016, a supplier filed its writ to Gaoyou City People's Court against Jiangxi Shipbuilding for the failure to make payment of the sale of cable. At the end of the reporting period, the litigation was judged and the outstanding payable of the principal payment and the relevant interests accrued of approximately RMB392,000 in aggregate, were recognised under "Trade and other payables" in the consolidated statement of financial position.

(iv) In September 2015, a contractor filed its writ to Wuhan Marine Court against Jiangxi Shipbuilding for the failure to make payment of provided vessel decoration services. At the end of the reporting period, the litigation was judged and the outstanding payable of the principal payment and the relevant interests accrued of approximately RMB4,636,000 in aggregate, were recognised under "Trade and other payables" in the consolidated statement of financial position.

(v) In November 2015, a supplier filed its writ to Jiujiang Arbitration Commission against Jiangxi Shipbuilding for the failure to make payment of provided gas services. At the end of the reporting period, the litigation was judged and the outstanding payable of the principal payment and the relevant interests accrued of approximately RMB3,525,000 in aggregate, were recognised under "Trade and other payables" in the consolidated statement of financial position.

(vi) In November 2015, a contractor filed its writ to Shanghai Jinshan District People's Court against Jiangxi Shipbuilding for the failure to make payment of provided vessel decoration services. At the end of the reporting period, the litigation was judged and the outstanding payable of the principal payment and the relevant interests accrued of approximately RMB763,000 in aggregate, were recognised under "Trade and other payables" in the consolidated statement of financial position.

(vii) In December 2014, a contractor filed its writ to Wuhan Marine Court against Jiangxi Shipbuilding for the failure to make payment of provided vessel decoration services. At the end of the reporting period, the litigation was judged and the outstanding payable of the principal payment and the relevant interests accrued of approximately RMB4,101,000 in aggregate, were recognised under "Trade and other payables" in the consolidated statement of financial position.

Save as disclosed above, the members of the Group has no other material litigation as of 31 December 2017 and 31 December 2016.

HUMAN RESOURCES

The Group had around 600 employees as at 31 December 2017. It has been the Group's policy to ensure that the pay levels of its employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system. The Group has participated in a mandatory provident fund scheme for its employees in Hong Kong. Shares options may also be granted to eligible persons of the Group.

CONTINGENT LIABILITIES

(a) At 31 December 2017, the Group has not paid the social security fund for and on behalf of its employees which expose the Group to the risk of being imposed the penalty by the relevant government authority. The social security fund accrued up to 31 December 2017 of approximately HK$49,002,000 (equivalent to RMB40,835,000) in aggregate, were recorded as "Trade and other payables" in the consolidated statement of financial position (2016: HK$40,206,000 (equivalent to RMB36,221,000)).

    A repayment agreement was signed between Jiangxi Shipbuilding, a wholly-owned subsidiary of the Company and the relevant government authority on 26 January 2015 in respect of the settlement of the unpaid social security fund. Per the agreement, all outstanding amounts should be repaid before December 2019. The Directors considered that if the Group could settle the unpaid social security fund according to the repayment agreement, no penalty would be imposed by the relevant government authority.

(b) At 31 December 2017, the Group has not paid the housing provident fund contributions for and on behalf of its employees which expose the Group to the risk of being imposed the penalty by the relevant government authority. The housing provident fund contributions accrued up to 31 December 2017 of approximately HK$8,724,000 (equivalent to RMB7,270,000) in aggregate, were recorded as "Trade and other payables" in the consolidated statement of financial position (2016:HK$5,483,000 (equivalent to RMB4,940,000)).

The Directors are of the opinion that the possibility to the risk of being imposed the penalty by the relevant government authority is remote.

(c) The Company had recognised the provision in relation to the litigations of approximately RMB14,971,000 (2016: RMB13,812,000) under "Trade and other payables" in the consolidated statement of financial position as at 31 December 2017. The management are of the opinion that it is not probable that these claims would result in an out flow of economic benefits exceeding the provisions made by the Group.

(d) On 3 December 2015, Merge and other shareholders of Zhejiang Ocean as counter guarantors (collectively referred to the "Counter Guarantor") entered into the counter guarantee agreement with Zhoushan Marine Comprehensive Development and Investment Co., Ltd（舟山海洋綜合開發投資有限公司）(the "Guarantor"), pursuant to which the Counter Guarantors shall, in proportion to their respective shareholding in Zhejiang Ocean and upon demand of the Guarantor, indemnify the Guarantor for all liabilities and expenses which may be incurred by the Guarantor under any guarantee given or to be given by the Guarantor in favour of Zhejiang Ocean during the period from 1 January 2015 to 31 December 2020 in respect of loan agreements and asset securitization agreements entered into by Zhejiang Ocean (the "Guarantee"), up to an aggregate amount of RMB900,000,000, together with any interests, penalty, compensation and related fees and expenses which may be payable by the Guarantor under the Guarantee. Accordingly, the maximum amount which Merge shall indemnify the Guarantor is 20% of the aforesaid aggregate amount, being RMB180,000,000.

(e) Huakai Heavy had provided corporate guarantees (the "Corporate Guarantee") to two vessel agency companies (the "Vessel Agency Companies") in favour of Huatai Heavy Industry (Nantong) Company Limited ("Huatai Heavy Industry"), an independent third party. Due to the failure of two ship owners to fulfill its payment obligation under the relevant shipbuilding contracts, Huatai Heavy Industry had cancelled the relevant export and import cooperation agreements with the Vessel Agency Companies. Pursuant to the terms of the export and import co-operation agreements and the civil mediation agreements, Huatai Heavy Industry was liable to refund the prepaid amount received from the Vessel Agency Companies (the "Prepaid Amounts").

As at 31 December 2017, the aggregated outstanding balances of the Prepaid Amounts are RMB76,446,000.

The vendors undertake to use the consideration payable to indemnify Huakai Heavy for all losses and liabilities incurred by Huakai Heavy under the Corporate Guarantee.

Save as disclosed above, the Directors are of the opinion that the Group has no other material contingent liabilities at 31 December 2017 and 31 December 2016.

CAPITAL COMMITMENTS

	2017	2016
	HK$'000	*HK$'000*
Contracted for but not provided in the consolidated financial statement:		
Unpaid registered capital for the associates	**103,260**	128,787
Unpaid registered capital for the subsidiaries	**636,240**	419,802
Unpaid registered capital for a joint venture	**120,000**	116,239
Capital expenditure in respect of the acquisition of property, plant and equipment	**29,498**	78,977
	888,998	743,805

EVENTS AFTER THE REPORTING PERIOD

There is no significant event after the reporting period.

DIVIDEND

No dividends were paid or proposed for the year ended 31 December 2017, nor has any dividend been proposed since the end of the reporting period (2016: Nil)

PROSPECTS

Looking forward, the Group will strive to consolidate and unleash the capability of its shipbuilding assets to capture the opportunities brought by the intelligent manufacturing upgrades in the PRC. Meanwhile, the Group will further expand its industrial chain in the intelligent car parking, automotive devices and mechanical processing industries by combining its industrial and financial expertise, so as to reinforce the Group's industrial integration.

For the shipbuilding business, the Group will focus on revitalising the shipbuilding assets of Jiangxi Shipbuilding by strengthening the scope and intensity of cooperation with leading enterprises. For late delivery of the vessels, the Group will strive to work out reasonable solutions as soon as possible to reduce the burden on shipyards. Backed by the support from the government, the Group will expand its cooperation with the leading shipbuilding companies based on established intentions, streamline the existing operation system for its shipbuilding business, improve production efficiency and reduce procurement and financial costs in order to realise turnaround from loss in the shipbuilding business of the Group. Meanwhile, in view of the abundant limestone resources around Jiangxi Shipbuilding, we will endeavour to fully utilise the excess assets such as wharfs and lands of the shipbuilding business for building material storage and logistics business so as to broaden our sources of cash inflows.

The Group will enhance its investment on intelligent car-parking and automotive electronics equipment and cooperate with cooperative partners to provide car park equipment design & manufacturing, car parks investment, car parks operation and management and car owner value-added services on the market via Internet channels.

Upon completion of the acquisition of Nantong Huakai, the Group expanded its business scope, customer base and source of revenue, and further dispersed relevant risks in the shipbuilding business. The Group will establish its production base in the coastal areas, and expand its business in terms of steel structure bridge, ship spare parts and ocean engineering. Based on the technology and excellent management team of Huakai Heavy and by leveraging the riverbank of the Yangtze River, It will also expand its business of building materials in Jiangxi Province based on the regional advantage of Huakai Heavy.

Meanwhile, the rise of the civil-military industry in the PRC has provided the Group with potential to expand market by leveraging the strength of Jiangxi Shipbuilding on manufacturing special equipment. The Group will also identify opportunities to introduce technologies to manufacture relevant equipment and expand the new source of revenue of the Group.

In general, the Group will capture the development opportunities and continue to operate under the strategy of diversity to effectively consolidate existing resources and expand business basis, and maximize the long term interests of Shareholders.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTION

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") set out in Appendix 10 of the Listing Rule regarding Directors' securities transactions. Based on specific enquiry of all the Directors of the Company, the Directors have complied with the required standard as set out in the Model Code for the year ended 31 December 2017.

CORPORATE GOVERNANCE

The Group has recognized the importance of transparency and accountability, and the Board believes that shareholders can be benefited from good corporate governance. The Company aims to achieve good standard of corporate governance. The Company has complied with the code provisions as set out in Appendix 14 of the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange").

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda, which would oblige the Company to offer new shares on pro-rata basis to existing shareholders.

AUDIT COMMITTEE REVIEW OF ACCOUNTS

The Audit Committee of the Company, which comprises the three independent non-executive directors of the Company, has reviewed the accounting principles and practices adopted by the Group and discussed auditing and financial reporting matters, including the review of the annual financial results of the Group for the year ended 31 December 2017.

PUBLICATION OF ANNUAL REPORT

The Company's 2017 annual report which contains the information required by the Listing Rules will be published on the Company's website and website of The Stock Exchange of Hong Kong Limited in due course.

BOARD OF DIRECTORS

The Board of the Company as at the date of the announcement comprises Mr. Li Ming, Mr. Zhang Shi Hong, Mr. Zhang Weibing and Mr. Liu Jin as executive directors, Mr. Chau On Ta Yuen as non-executive director and Mr. Hu Bai He, Ms. Xiang Siying and Ms. Xiang Ying as independent non-executive directors.

By order of the Board
LI Ming
Chairman

Hong Kong, 29 March 2018